MOODY'S
INVESTORS SERVICE

Announcement: Moody's updates on Paragon Mortgages (No. 16) PLC (RAC)

Global Credit Research - 06 Feb 2012

No rating impact following addition of prefunded loans

London, 06 February 2012 -- Moody's has stated today that the addition of GBP21.5m of pre-funded loans will not, in and of itself, result in a reduction or withdrawal of the Aaa(sf) rating assigned to the Class A Notes.

There will be GBP150m of loans following the addition of the prefunded loans (equivalent to 16.7% of the current pool size of GBP128.5m) on 6 February 2012, with the possibility to add a further GBP13.8m by 30 March 2012 subject to certain criteria being met.

The addition of the new assets does not alter the portfolio expected loss of 3% and the MILAN Aaa Credit Enhancement of 20.5% which serve as input parameters for Moody's cash flow model. The WA LTV of the pool following the addition of the pre-funded assets has increased marginally from 69.8% to 70.0%, with the proportion of employed borrowers and repayment loans both also increasing marginally.

In determining the impact of the proposal on the rating of the Notes, Moody's considered the characteristics of the newly added assets including the borrower concentration, amongst other factors. The added loans comply with the relevant criteria including the weighted average interest coverage ratio not being less than 152%, the top 20 borrowers comprising less than GBP16.9m, the new loans being made to unique borrowers and appropriate hedging arrangements being in place for the fixed loans.

Moody's rating addresses only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have significant effect on yield and/or other payments to investors. The affirmation of Moody's rating should not be taken to imply that there will be no adverse consequences for investors since in some cases such consequences will not impact the rating. Further information on the nature of credit ratings and Moody's rating methodologies can be found on www.moodys.com.

METHODOLOGY

The methodologies used in this rating were Moody's Approach to Rating RMBS in Europe, Middle East, and Africa published in October 2009, Moody's Updated Methodology for Rating UK RMBS published in October 2009, and Cash Flow Analysis in EMEA RMBS: Testing Structural Features with the MARCO Model (Moody's Analyser of Residential Cash Flows) published in January 2006. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

In addition, Moody's publishes a weekly summary of structured finance credit, ratings and methodologies, available to all registered users of our website, at www.moodys.com/SFQuickCheck.

As noted in Moody's comment 'Rising Severity of Euro Area Sovereign Crisis Threatens Credit Standing of All EU Sovereigns' (28 November 2011), the risk of sovereign defaults or the exit of countries from the Euro area is rising. As a result, Moody's could lower the maximum achievable rating for structured finance transactions in some countries, which could result in rating downgrades.

Jonathan Livingstone
Vice President - Senior Analyst
Structured Finance Group

Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Annabel Schaafsma
Senior Vice President
Structured Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Emily Rombeau
Associate Analyst
Structured Finance Group
+39 02 9148 1100

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454